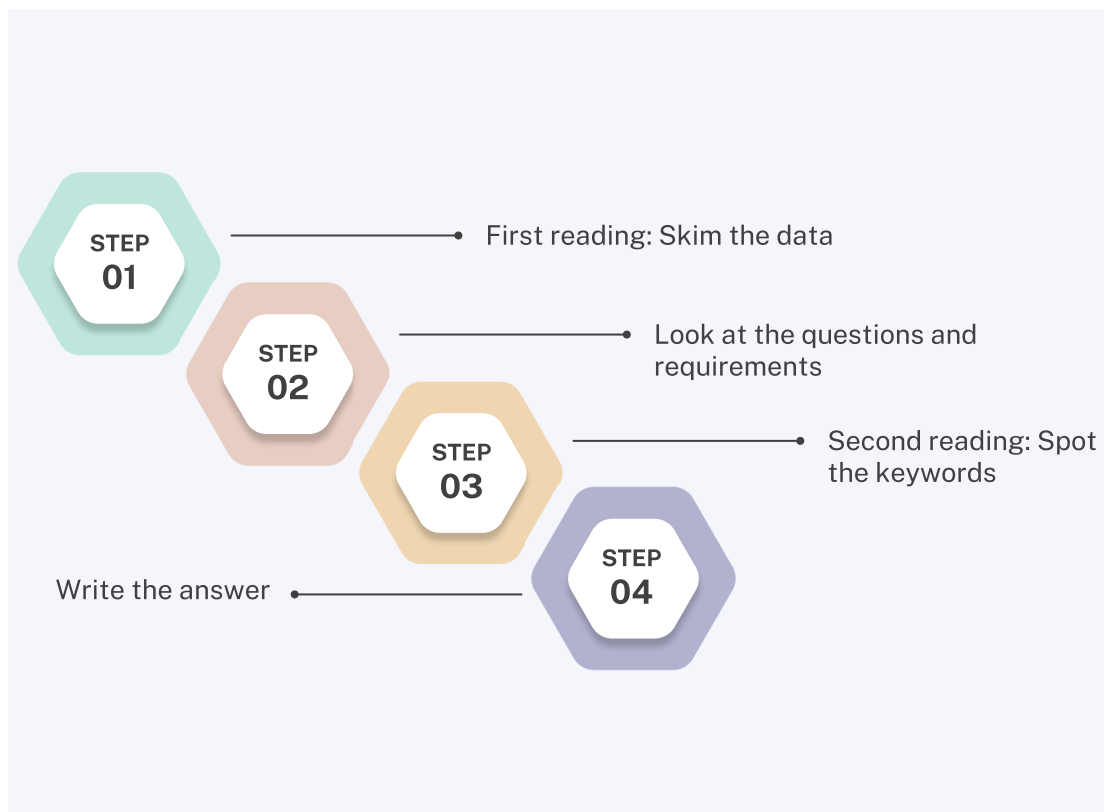


# FREE SAMPLE

## STEP BY STEP GUIDE TO

### ECONOMICS DATA RESPONSE QUESTIONS

#### A LEVEL



# Data Question

Cambridge A Level 9708  
November 2021 Paper 4  
Structured Questions

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## Competition in the skies over Europe

In the sixteen months to April 2019 thirteen airlines ceased trading in Europe. This reflected a global trend where small airlines found it increasingly difficult to compete against large airlines, which have continued to grow.

Large airlines charge a price for a flight that includes meals and entertainment for passengers. Smaller airlines charge a price for the flight only and passengers need to pay extra for other services such as meals.

Large airlines benefit from economies of scale. Without these cost-reductions some smaller airlines have gone bankrupt.

The reduction in the number of airlines has not reduced the overcapacity in the market because the aircrew and aircraft of the bankrupt airlines were acquired by the remaining companies, which have developed into super-airlines. This has left passengers with fewer airlines to choose from and more expensive fares. It was predicted that this would lead to an increase in the market share for the top five European airlines from 50% of the European market in 2019 to match the top five United States (US) airlines, which control 77% of the US market.

The development of super-airlines took place at the same time as increasing regulation of the airline market. For example, the European Union (EU) will only grant operating licences for flights between EU countries to an EU airline. This has prevented non-EU airlines from competing on EU routes.

For the super-airlines, large scale is the easy way to avoid the stresses and strains of open competition. For passengers this will lead to higher prices and poorer service.

Sources: adapted from Financial Times, 6 October 2017 and The Economist, 27 April 2019

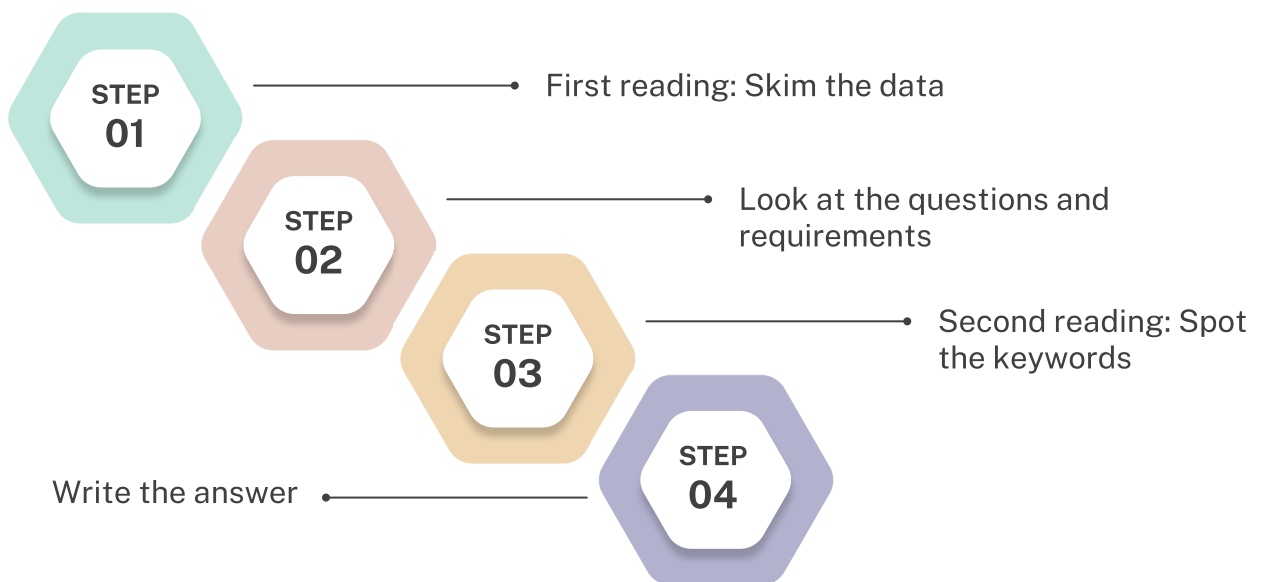
(a) Using the information, explain the predicted effect of the development of super-airlines on the concentration ratio in the European airline market. [2]

(b) 'Large airlines benefit from economies of scale.' With the use of an example and a diagram, explain how a large airline can benefit from economies of scale.[5]

(c) Explain what is meant by a contestable market and discuss how making the airline market more contestable could benefit passengers. [6]

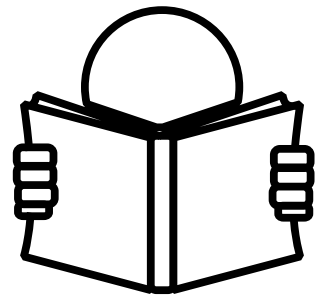
(d) Identify the market structure for airlines in Europe in 2019 following the development of the super-airlines and discuss how airlines may compete in this market structure. [7]

# STEPS TO ANSWER A DATA RESPONSE QUESTION



## Step 1

# First Reading



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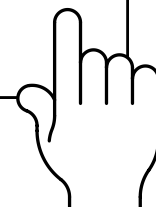
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SKIM THE DATA

## SKIM THE DATA

Start by skimming the data. Read the text quickly to get a general idea of meaning.

## COMPETITION IN THE SKIES OVER EUROPE

### LOOK AT THE TITLE

Look at the title as it may give some clues about its content.

It was predicted that this would lead to an increase in the market share for the top five European airlines from **50% of the European market in 2019 to match the top five United States (US) airlines, which control 77% of the US market.**

### ANALYSE FACTS, FIGURES AND TABLES

Analyse facts, figures tables and diagrams. See if you know what they mean. Pick out any notable features of a chart or diagram.

# END OF FREE SAMPLE

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01

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2. The economic problem
3. Basic economic Ideas
4. Economic systems
5. Demand and supply
6. Elasticity
7. Money
8. Production cost and Specialisation
9. Firm's cost structure
10. Market structures
11. Behavioural economics
12. Types of goods
13. Costs and benefits
14. Market failure
15. Microeconomic policies
16. Population
17. Aggregate demand and supply
18. Inflation and deflation
19. Policies to correct inflation and deflation
20. Unemployment
21. Macroeconomic policies
22. International Trade
23. Exchange rates
24. Balance of payments
25. Policies to correct Balance of payments Disequilibrium

## The fundamental economic problem

The fundamental economic problem is:

'scarce resources in relation to unlimited wants.'

1 2 3

1 Scarcity: The excess of human wants over what can actually be produced to fulfil these wants

2 Resources: inputs available for the production of goods and services.

3 Wants: needs that are not always realised.

### Choice

Choice underpins the concept that resources are scarce so choices have to be made by consumers, firms, and governments.



### Sacrifice

Choice involves sacrifice. The more food you choose to buy, the less money you will have to spend on other goods.



### Opportunity cost

In other words, the production or consumption of one thing involves the sacrifice of alternatives. This sacrifice of alternatives in the production (or consumption) of a good is known as its opportunity cost.

Opportunity cost is the cost expressed in terms of the best alternative that is forgone.

**EXAMPLE**



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## Question

'Both the take-up rate and number of journeys per bus pass have been falling in recent years.'

Explain two factors which could lead to an increase in the demand for bus travel in the future.

(10 marks)

Category: Demand and supply

AQA AS ECONOMICS November 2020

## Answer

Tip: Generally, AQA exam questions are accompanied by an extract (although we have not included it here for simplicity). To score higher marks, refer back to the data (facts and figures) given in the extract, when writing your essay! Note that in this question you are asked to 'explain TWO factors'. In this case, it's a good idea to break your essay into two parts: Factor 1 and factor 2.

(Step 1: Define 'demand' in the introduction)

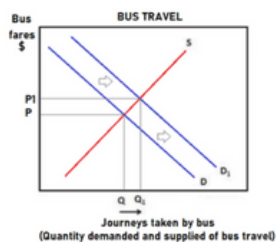
Demand refers to both the willingness and the ability of customers to pay a given price to buy a good or service. There are several factors which could lead to an increase in the demand for bus travel in the future.

(Step 2: Explain TWO factors which could increase the demand for bus travel)

Factor 1: A change in tastes or social norms will increase the demand for bus travel.

Today, travelling by bus has the image of being unpleasant, unreliable and for the 'lower class'. However, more awareness is being raised about air pollution, climate change and CO<sub>2</sub> emissions. People in the future may perceive bus travel as being more ecologically and economically efficient. Furthermore, with the introduction of smart lanes and electric buses, the experience of travelling by bus will improve with time. These factors will encourage people to take the bus.

If more people become aware that travelling by bus is environmentally friendly, more people will opt for bus travel to reduce their carbon footprint. The demand for bus travel will increase. The effect of an increase in demand for bus travel can be shown using a diagram. The diagram below shows the demand and supply curves of bus travel.



Initially, people are unaware of the environmental benefits of bus travel, the equilibrium price (bus fare) is P and the equilibrium quantity (number of journeys taken by bus) is Q. Following campaigns raising awareness about air pollution, more people will be encouraged to travel by bus instead of using their cars. The demand curve for bus travel shifts rightward from D to D<sub>1</sub>. The quantity demanded and supplied for bus travel increases from Q to Q<sub>1</sub>.

Factor 2: If the price of substitutes such as car travel increases, then people will turn to bus travel instead because of its more favourable relative price.

Substitutes are alternative goods and can satisfy the same want or need. Examples of substitutes are car travel and bus travel. For example, if the price of car travel increases significantly, people will look for cheaper alternatives, such as bus travel.

The cost of travelling by car can increase in the future, for instance, due to higher fuel prices. Consequently, if the cost of travelling by car goes up in the future, people will avoid travelling by car, and take the bus instead. The demand for bus travel will increase.

The government may also subsidise bus travel in the future, making bus fares cheaper. This will encourage people to switch away from using their cars to travelling by bus.

(Step 3: Conclude)

To conclude, the demand for bus travel could increase in the future if people perceive buses as being more ecologically and economically efficient. Also, if the price of substitutes such as car travel increases, then people will turn to bus travel instead because of its more favourable relative price.

MARKING SCHEME

- Relevant issues include:
  - meaning of demand
  - lower relative price and/or greater availability compared with substitute goods
  - increased subsidy
  - changes in tastes and/or social norms
  - changes in income and/or consideration of bus travel as an inferior good
  - increased population and/or changes in age structure
  - the significance of elasticities.

Level 3

- An answer that:
  - identifies two valid factors
  - shows sound knowledge and understanding of relevant economic terminology, concepts and principles
  - includes good application of relevant economic principles and/or good use of data to support the response
  - includes well-structured analysis with a clear, logical chain of reasoning
  - may include a relevant diagram to support their explanation

EXAMPLE

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03

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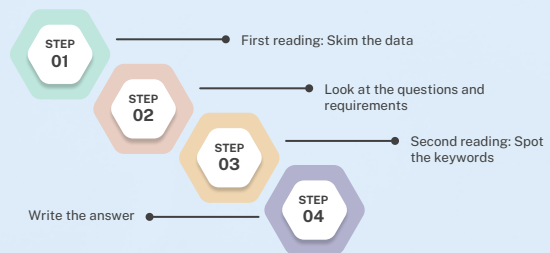
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**ANALYSE FACTS, FIGURES AND TABLES**  
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**COMPETITION IN THE SKIES OVER EUROPE**

It was predicted that this would lead to an increase in the market share for the top five European airlines from 50% of the European market in 2019 to match the top five United States (US) airlines, which control 77% of the US market.

## STEPS TO ANSWER A DATA RESPONSE QUESTION



## Read the Requirements

Always read the requirement first as this enables you to focus on the detail of the question with the specific task in mind.

What is the point in reading a scenario if you don't know what you are looking for? If you don't read and understand the requirements carefully, then you will find that you are not actually answering the question. If you are not answering the question, then you are not earning marks.

Pay attention to (1) The content and (2) The instructions

**Explain** what is meant by a contestable market and discuss how making the airline market more **contestable** could benefit passengers.

**... contestable market...benefit**

**THE CONTENT**  
When you read each part of the requirement, highlight the 'content'. This is simply what the question is about. This helps you to focus your mind on answering the actual question rather than answering what you thought the question was going to ask you.

**THE INSTRUCTIONS**  
This instruction could be a whole variety of verbs ranging from numerical requirements such as calculate and apply, or more wordy requirements such as describe, interpret, outline or compare. The verb used has been carefully thought about by the examiner, taking into account any restrictions imposed by the syllabus.

**Explain**  
Explain what is meant by a contestable market and discuss how making the airline market more contestable could benefit passengers.

**(d) Explain two reasons why a government may privatise an industry. [4]**

There are several reasons why a government may privatise an industry, such as air travel.

**STRUCTURE**

**CLEAR HEADINGS**

**Reason 1: Privatising an industry may lead to an increase in government revenue.**

**PARAGRAPHS**

The government may earn more tax revenue if it privatises a state-owned industry. This is because a privately owned industry has to pay corporation tax. A corporation tax is a tax levied on companies profits.

**REFERENCE TO THE DATA**

The sale of a state-owned enterprise to the private sector will also raise money for the government.

**SIMPLE ENGLISH**

In the data, it was mentioned that a successful sale of Air India to the private sector would have raised money for the Indian government.

More tax revenue will enable the government to increase its spending on education, healthcare or infrastructure. This will help to promote development in the country.

**Reason 2: The government may privatise an industry because the industry is making a loss.**

The need to use tax revenue to finance the loss-making industry will be reduced. The private sector may also manage the industry with greater efficiency and turn the loss into a profit. This is because the private sector, motivated to make a profit, will increase productivity and reduce costs.

**EXAMPLE**

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Questions

Paper and year

Topic

Answers and Explanations

**Scarcity, Choice and Opportunity Cost Multiple Choice Questions**

1. Which terms summarise the nature of the economic problem?  
 A finite resources and unlimited wants  
 B finite resources and unlimited wants  
 C infinite resources and limited wants  
 D infinite resources and unlimited wants  
 [210/P220]

2. The government of a country with a rapidly increasing population decides to switch resources from investment to increased subsidies to farmers. What is the opportunity cost of this decision?  
 A the profit earned by farmers  
 B the rest of the land on which food is grown  
 C the reduction in investment  
 D the wages of the farm workers  
 [210/P247]

3. Which economic change would increase the problem of scarcity?  
 A a decrease in fish stocks  
 B a discovery of a new oil field  
 C an increase in labour productivity  
 D a reduction in waste  
 [110/P1/052]

4. What makes choice an important element in the basic economic problem?  
 A increased demand leads to higher market prices.  
 B limited resources have many alternative uses.

C Reaching a market equilibrium may take a long time.  
 D Scarce economic resources are distributed equally.  
 [10/P1/011]

A government of acid with their about to ending on the other side of the world.  
 A conservation of resources  
 B monetary policy  
 C opportunity cost  
 D substitution of factors  
 [210/P252]

5. A firm decides stop manufacturing & producing a product washing machines instead. What is the opportunity cost to the firm?  
 A the additional washing machines produced  
 B the cost of producing ovens  
 C the cost of producing washing machines  
 D the cost of the production of ovens  
 [211/P201]

6. What is meant by the economic problem?  
 A An unbalanced supply and demand  
 B The need to choose between alternative uses of limited resources  
 C The need to choose between public and private sectors  
 D The need to choose between alternative uses of finite resources  
 E The need to choose which methods to use to exploit all resources

7. The basic economic problem is that human wants are unlimited while the resources available to satisfy these wants are limited. Which of the following is not a consequence of this problem?  
 A The need to choose between alternative uses of limited resources  
 B The need to choose between public and private sectors  
 C The need to choose which methods to use to exploit all resources  
 D The need to choose between alternative uses of finite resources

O level topics

01	Economic Problems
02	Factors of Production
03	Economic Systems
04	Demand, Supply and Equilibrium
05	Perfect Competition and Monopoly
06	Aims of Government and its Role
07	Market Failure
08	Public Expenditure vs Private Expenditure
09	Banks and Stock Exchanges
10	Labour Market
11	Motives for Spending, Saving and Borrowing
12	Different Types and Sizes of Firms
13	Production, Costs, Revenues and Profits

AS level topics

01	Basic Economic Ideas And Resource Allocation
02	Production Possibility Curves
03	Classification Of Goods And Services
04	The Price System And The Micro Economy
05	Price Elasticity
06	The Macro Economy
07	International Trade
08	Protectionism
09	Exchange Rates
10	Government Macro Intervention

A level topics

01	Law of Diminishing Marginal Utility, Indifference Curves and Budget Lines
02	Types of Cost, Revenue and Profit
03	Firms and Market Structures
04	Efficient resource allocation
05	Equity and Policies towards Income and Wealth Redistribution
06	Labour Market Forces
07	National Income Statistics
08	The Circular Flow of Income
09	Money Supply (theory)
10	Economic Growth, Economic Development and Sustainability
11	Government Macroeconomic Policy Aims